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ROUTING AND RECORD SHEET

Executive Registry
26-98131

SUBJECT: (Optional)

FROM:

STAT Inspector General

EXTENSION

NO.

DATE

27 July 1976

TO: (Officer designation, room number, and building)

DATE

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1.				Hank: In the attached inspection plan I have not raised the issue of using retired annuitants. While I believe the retired candidates whom I had suggested would qualitatively improve the Phase I inspections and provide us with extra hands to make it go faster, they are not critical to the plan. But, if you have policy or principle objections to annuitants from a management point of view, I do not want to press the issue. Your alternate suggestion that the DD's offer up some extra help is a good one in my opinion provided (a) they offer up good officers and (b) the officers sign on for at least a year to avoid accusations of unobjectivity or bias. One way to get around the latter problem, of course, would be to stipulate that a loaned officer could not inspect any component in his home DD.
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1976Executive Registry
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MEMORANDUM FOR: Deputy Director of Central Intelligence

FROM: John H. Waller
Inspector General

SUBJECT: Inspection Staff Proposed Plan

1. For your consideration and concurrence, I am submitting herewith a proposed plan for the Inspection Staff covering the period from the present to about December 1976 (Attachment I). You will note that I propose a mix of (a) a cross-component inspection (CIA relations with business) stimulated by Senate Oversight Committee concern, (b) a specific inspection of the potentially troublesome problem of liaisons with repressive foreign regimes, in part stimulated by an Executive Oversight Board line of inquiry and (c) "Phase I" DD component inspections, an innovation, designed to ascertain within a three to four-month period where the Agency may be in violation of Executive Order 11905/HR 7-1, and to give priority as well as to identify sub-component or cross-component subjects which warrant a more detailed, traditional inspection. Also innovative is (a) a plan to bring about more cooperation between the Inspection Staff and the Audit Staff and (b) the establishment of a fixed Complaint Staff (to be rotated every six months) as opposed to the present ad hoc, part-time, treatment of complaints. I hope to keep maximum flexibility and plan no further into the future than I have. Not only can the Phase I surveys be expected to suggest more intensive lines of inquiry, but ad hoc problems raised by the Senate Oversight Committee, other Congressional Committees, the Executive Oversight Board and by the Director, yourself or the component chiefs can be expected and will cause us to adjust our schedule. Should the load become too heavy, I may wish to request additions -- permanent or temporary -- to the Inspection Staff.

2. I have also included certain other attachments which may provide you with useful background information.

John H. Waller

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Attachments - 3

CONCUR:

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ATTACHMENT I

INSPECTION STAFF PROGRAM -- 1 AUGUST 1976 - 1 DECEMBER 1976

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1. Executive Order 11905 of February 19, 1976, in presenting the functions of the Inspector General, instructs the IG to "formulate practices and procedures designed to discover and report to the (Executive) Oversight Board activities that raise questions of legality or propriety". (Sec. 6(b)(5))
2. Headquarters Notice 1-118 of 19 April 1976 states: "The IG periodically will review all components within Headquarters, throughout the United States and overseas".
3. Headquarters Regulation [redacted] states: "The Chief Inspection Staff will (a) conduct periodic inspections of all CIA offices for compliance with CIA authorities and regulations....".
4. SSC Recommendation 62 states: "The program of component inspections conducted by the Inspector General should be increased, as should the program surveys of sensitive programs and issues which cut across component lines in the Agency".
5. The Rockefeller Commission Report, Recommendation 9c states: "The Inspector General's duties with respect to domestic CIA activities should include periodic reviews of all offices within the U.S. He should examine each office for compliance with CIA authority and regulations as well as for the effectiveness of programs in implementing policy objectives".
6. While no specific cycle time for component inspections is stipulated in either the Executive Order or CIA regulations and notices, the thrust of the above would suggest that we would be well advised to be in a position to report authoritatively to the Executive Oversight Board and the Senate Oversight Committee at an early date that CIA is in compliance with its own regulations and the spirit as well as letter of the Executive Order. The spirit and intent of the above would suggest that a reasonably quick component inspection is desirable.
7. With this in mind, the following component inspections and special studies have been completed, are under way and will soon be completed, or are planned.
8. The 40 members of the Audit Staff who keep to a rigorous schedule of domestic and overseas audits are indoctrinated in [redacted] and represent a peripatetic body of officers to further [redacted]

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ATTACHMENT 2

The Audit Function and the Scope of Audits in CIA;
Relationship to Inspections

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1. Some knowledge of the legal and administrative basis of the Federal Government's standards and procedures for internal auditing in Federal agencies is important to an understanding of the audit function and the scope of audit in CIA and CIA's regulation on the subject. CIA regulation [redacted] (see attached) observes these standards, while at the same time taking into account the Agency's unique circumstances in terms of its operations and use of confidential funds.

2. The Budget and Accounting Procedures Act of 1950 requires the head of each executive agency to conduct internal audits in accordance with standards established by the General Accounting Office, the auditing arm of Congress. These standards provided for expanded audits. Until recently, however, the Agency generally limited the Audit Staff to the performance of financial/compliance audits. The Agency's philosophy was to emphasize strong financial audits because of its unique responsibility for the expenditure of confidential funds. Agency management believed that disclosure of financial irregularities could jeopardize the continuance of confidential funds authority.

3. Since 1950, GAO has promulgated audit standards which extend beyond the traditional financial/compliance audit. Recently GAO and OMB, the management arm of the Executive Branch, have stressed the need for increasing the scope of audit coverage in Federal agencies, including CIA. Their guidelines are contained in GAO's Standards for Audit of Governmental Organizations, Programs, Activities and Functions and OMB's Federal Management Circular 73-2. CIA regulation [redacted] which is consistent with the provisions of these issuances, specifies the standards of expanded audits as conducted in CIA. These standards provide for a scope of audit that includes not only financial compliance auditing but also auditing for "economy and efficiency," and "achievement of desired results"; these latter are known as expanded audits. The concept of accountability is woven into the basic premises supporting the standards.

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4. These various authoritative issuances have been instrumental in the writing of [redacted] and will become more important if there is a resumption in any form of GAO external audits of CIA. GAO relies on the work of the internal auditors and the other evaluation/assessment elements in a Federal agency and to the extent that GAO can accept this work, it limits its own reviews.

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5. The work related to financial/compliance auditing is well known and includes an examination of financial transactions, accounts, and reports including an evaluation of compliance with applicable laws and regulations. This is the first element of the three elements which constitute a full scope audit.

6. In making a determination as to whether Agency resources are managed economically and efficiently (the second element of a full scope audit) the auditor, should be alert to such examples of uneconomical practices or inefficiencies as:

- (a) Procedures which are ineffective or more costly than justifiable.
- (b) Redundancy of effort by employees or between organizational units
- (c) Performance of work which serves little or no useful purpose
- (d) Inefficient or uneconomical use of equipment; faulty buying practices
- (e) Overstaffing in relation to work to be done
- (f) Wasteful use of resources

7. The third element of a full scope audit consists of a review of a program or activity to determine whether the desired results and benefits are being achieved and whether the program or activity is meeting established objectives. The auditor, should consider:

- (a) The relevance and validity of the criteria used by the audited entity to judge effectiveness in achieving program results
- (b) The appropriateness of the methods followed by the entity to evaluate effectiveness in achieving program results
- (c) The accuracy of the data accumulated
- (d) The reliability of the results obtained

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In other words, the auditor will not necessarily accumulate data himself to determine whether programs are meeting established objectives, but will normally only review and test those procedures and methods employed by line management to evaluate programs and activities. This could also include evaluation and review of MBO and other Agency management systems. It should be noted that the audit standards promulgated and adopted by OMB and GAO permit the auditor to accept the work of other assessment and evaluation groups.

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8. Under [redacted] the Audit Staff is required to coordinate the selection of subject matter for an expanded audit with the Deputy Director concerned. Since only the DCI can exempt a program or component from audit (and none are presently exempt), a Deputy Director who wishes such an exemption would have to seek DCI approval if the Deputy Director objected to an audit. The Audit Staff's limited resources and commitment to financial/compliance audits preclude more than a few expanded audits at this time. Resources are limited particularly in terms of the number of auditors believed to have the necessary experience and background to conduct expanded audits.

9. During a routine financial compliance audit, the auditors may uncover uneconomical practices and inefficiencies, or they may also discern that desired results are not being achieved. In these cases, the auditors would not be fulfilling their responsibilities if they did not explore these matters further and comment on their findings.

10. There is an area of potential overlap between the Audit Staff and the Inspection Staff. The Inspector General has the responsibility to conduct periodic inspections of all CIA offices to determine the effectiveness of their programs in implementing policy objectives. This authority is broadly encompassing. Audit Staff's authority to determine whether programs are meeting established objectives and desired results are being achieved is oriented primarily toward testing and reviewing procedures and methods used by line managers to evaluate use of their resources. There is the possibility of some overlap here, but since the Inspector General monitors the work of both the Inspection and Audit Staffs, he views as one of his major tasks the limitation of unnecessary duplication between expanded audits and inspections.

11. Serious efforts will be made to avoid duplication of audit and inspection effort, and to make more effective use of the limited number of qualified personnel available to conduct these kinds of inspections and audits. [redacted] states under 1b(2)(c) that the Chief, Audit Staff will:

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When an audit is planned which encompasses elements of (extended audits) augment the audit team where necessary with an individual or individuals with appropriate experience in the technical field or operational area to be reviewed. These individuals may be drawn from either the Inspection Staff, the directorate involved, retirees, or outside consultants, and should be independent of the program under review. Individuals selected for augmentation of audit teams will be appropriately cleared with the Deputy Director concerned.

This technique has seldom been utilized in the past when an expanded audit was undertaken. If a Deputy Director believes that an expanded audit would benefit from the assistance of technical expert(s), he should so recommend to the Chief, Audit Staff. The technical expert will act as an adviser to the auditors. Accordingly, his views and opinions of course cannot be imposed on the auditors and the auditors have the right to deliberate independently.

12. In addition, the Deputy Director concerned may appoint a person from his staff--not from the component being audited/inspected--to assist the audit team as necessary, and whose relationship will be subject to the same guidelines as the technical expert.

13. Other possibilities include that of having the Inspection Staff conduct surveys or inspections in conjunction with the auditors, by assigning an inspector to the more important audits. In these cases, the audit teams and the inspector would work together in a Headquarters component, or at a field installation or on a program review/audit. Alternatively, auditors may be assigned to inspection teams, especially where financial considerations are important. These combinations of auditors and inspectors should be able to respond to the somewhat overlapping requirements of both audits and inspections. Over the coming months it is expected that these and other proposals will be tested out, refined, and improved.

14. The above is intended to be a discussion of the auditors role and the relationship between Audit and Inspection Staffs but in no way modifies or alters existing relevant regulations.

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